

FLEX-PLAN SERVICES

Dependent Care Flexible Spending Account

For your day care expenses that allow you to work

1. WHAT IS IT?

A **Day Care Flexible Spending Account (FSA)** allows you to save both FICA (7.65%) and Federal Income Tax (10%-35%) on your Day Care expenses for your qualified dependents. A qualifying dependent is:

- Your dependent who was under age 13 (can be older if disabled) when the care was provided and for whom you can claim an exemption (if you cannot claim the exemption, due to a divorce agreement, the child must live with you)
- Your spouse who is physically or mentally unable to care for him or herself and lives in your home.

2. WHAT ARE ELIGIBLE DAYCARE EXPENSES?

Your Day Care expense must be for services that were rendered during your plan year. In addition:

- Expenses must be work related (if married, both you and your spouse must work or be looking for work, or be a full-time student) Please see #4 below for certain limitations.
- Expenses must be for a qualifying dependent. To qualify, a dependent must be under the age of 13 (If over the age of 13, your dependent must be physically or mentally incapable of providing caring for themselves).
- Care can be provided inside or outside your home.
- You can include part of the expenses for household services if they are incidental to the care of a qualifying individual.
- Include the taxes you pay on wages you pay a person for qualifying child and Day Care expenses.

3. WHAT DAYCARE EXPENSES ARE NOT ELIGIBLE?

- DO NOT** include the cost of education for kindergarten or higher. (Before and after school care is okay.)
- DO NOT** include the cost of overnight camp.
- DO NOT** include transportation costs.
- DO NOT** include expenses incurred while you are not working due to illness or injury.
- DO NOT** include any payments made to: (1) A dependent for whom you can claim an exemption, and (2) Your child who is under age 19 at the end of the plan year.
- DO NOT** include nursing home expenses, or dependents that do not live with you.

4. IS THERE A LIMIT ON HOW MUCH I CAN USE?

The IRS currently allows a calendar year maximum of \$5,000 per year per family or \$2,500 if you are married and filing a separate return. If your plan year is not on a calendar year, then your plan maximum may be prorated accordingly. If you or your spouse is a full-time student, you are limited to a monthly election of \$250.00 per month that you are in the plan.

5. HOW DOES THE PLAN WORK?

Each pay date, your employer will deduct the amount you elected to have withheld from your paycheck. No FICA or federal income taxes will be deducted from your elected amount. These funds will be held in a disbursement account in your name until you submit a claim for qualifying expenses. Your reimbursements can never exceed the physical balance of your account and are always made payable to you. It is your responsibility to pay the provider for services rendered.

EXAMPLE*

Jack earns \$50,000 and participates in the Flex. Sally earns \$30,000 They pay to have their child in a daycare program while they are at work. After calculating their day care costs for the Plan Year, they have determined the following.

\$4,800/yr / (\$400/month) for Daycare

Without Flex-Plan Day Care FSA

Taxable Pay (3 exemptions & Std Ded)	\$61,350
Taxes (Includes FICA on gross of \$50,000)	(-12,783)
Net Take Home	\$48,567
Daycare @ \$400/month	(-4,800)

Spendable Income After Daycare costs	\$43,767
Estimated Tax Credit (after filing taxes)	<u>\$960</u>

Spendable income after tax refund	\$44,727
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If you incur more than \$4800 in expenses, refer to table on reverse.

With Flex-Plan Day Care FSA

Taxable Pay (3 exemptions & Std Ded)	\$61,350
Pre-Tax Day Care Deduction	(-4,800)
Taxable Pay	\$56,550

Taxes (Includes FICA on Gross of \$45200)	(-11,240)
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Spendable Income After Daycare costs	\$45,310
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*Example uses MFJ rates, \$3050 Personal Exemptions, and \$9500 Std Deduction

Jack has **increased** his take home pay by **\$583 per year** by participating in the Day Care Flexible Spending Account over the IRS Tax Credit.

6. HOW SHOULD I CALCULATE MY DAY CARE FSA?

- Estimate expenses through the plan year.
- Divide by the number of pay dates (12, 24, 26 etc).
- Enter the amount on the election form.

Important: When calculating your expenses, take into account holidays, sick days, vacation time-off, as well as times when your child is in school.

7. WHAT DO I NEED TO RECEIVE A REIMBURSEMENT?

IRS regulations require you to provide us with:

- Your provider's name and tax I.D. number (or SSN).
- A signed receipt or invoice from your provider (canceled checks are not valid receipts). Receipt must show the cost of care and the date(s) care was provided.
- A completed *Request for Reimbursement* form.

8. CAN I CHANGE MY ANNUAL ELECTION AMOUNT?

The IRS allows changes for: marriage, divorce, birth, death, adoption, a change in you or your spouse's employment status,

or a change in day care rates or providers. Otherwise, your election amount remains the same throughout the plan year.

9. WHAT IF THERE IS MONEY LEFT IN MY ACCOUNT?

Any unused or unclaimed balances left in your account are forfeited back to your employer after the grace period has expired. Generally, you will have a 60-90 day grace period after the end of each plan year to submit your reimbursement requests for expenses incurred through the last day of the previous plan year. You may be able to get credit for this on form 2441 filed with your tax return.

10. WHAT HAPPENS IF I QUIT OR TERMINATE?

Your contributions cease and you will have until the end of the grace period to submit claims for expenses incurred during the plan year for work related daycare.

When using the Day Care FSA, you must file IRS form 2441 to report your day care provider(s) Tax ID number(s)

WORKSHEET FOR COMPARING DAY CARE TAX SAVINGS
SECTION 125 TAX SAVINGS VERSUS 1040 TAX CREDIT

USING YOUR DAY CARE SECTION 125 PLAN

Your Annual Daycare Expenses (\$5,000 maximum) \$ _____/YEAR

Your Fed. Income Tax (generally 10-35%) _____

+7.65 (FICA)

_____ = X _____%

Your Tax Savings Using Section 125 \$ _____/YEAR

Tax Rates (2003)	
<u>FICA (Social Security + Medicare) 7.65% to \$87,000 then 1.45% on income over \$87,000</u>	
<u>Federal Income Tax: (based on taxable income after exemptions & deductions)</u>	
Single: 10% to \$7,000; 15% on next \$21,400; 25% on next \$40,400; 28% on next \$74,700;	
33% on next \$168,450; and 35% on excess over \$311,950	
Married: 10% to 14,000; 15% on next \$42,800; 25% on next \$57,850; 28% on next \$60,050;	
33% on next 137,250; and 35% on excess over \$311,750	

TAKING INCOME TAX CREDIT (FORM 2441 CREDIT ON YOUR 1040)- 2003 new Rules for Credits

<u>ADJUSTED GROSS INCOME</u>	<u>CREDIT</u>	<u>ADJUSTED GROSS INCOME</u>	<u>CREDIT</u>
\$0-\$15,000.....	35%	\$29,001-\$31,000.....	27%
\$15,001-\$17,000.....	34%	\$31,001-\$33,000.....	26%
\$17,001-\$19,000.....	33%	\$33,001-\$35,000.....	25%
\$19,001-\$21,000.....	32%	\$35,001-\$37,000.....	24%
\$21,001-\$23,000.....	31%	\$37,001-\$39,000.....	23%
\$23,001-\$25,000.....	30%	\$39,001-\$41,000.....	22%
\$25,001-\$27,000.....	29%	\$41,001-\$43,000.....	21%
\$27,001-\$29,000.....	28%	\$43,000 and Above.....	20%

Your annual eligible expenses
(\$3,000 maximum for 1 child; \$6,000 maximum for 2 or more) \$ _____/YEAR
(higher limit means availability of partial deduction and partial credit)

your tax credit percentage
(see chart above to determine your percentage) X _____%

Your Tax Savings Using 1040 Tax Credit \$ _____/YEAR